

**THE INNOVATION AND ENTREPRENEURSHIP
INVESTMENT AUTHORITY
INCLUDING ITS BLENDED COMPONENT UNIT
CENTER FOR INNOVATIVE TECHNOLOGY
Herndon, Virginia**

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014**



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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of the Innovation and Entrepreneurship Investment Authority (Authority), offers readers of the Authority's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth). Its mission is "accelerating the next generation of technology and technology companies" coupled with the objective to "achieve national recognition as the premier services provider engaged in technology company creation and company growth". The Center for Innovative Technology (CIT) is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority and is a blended component unit of the Authority. Transactions are accounted for in enterprise funds and reports have been prepared on the accrual basis of accounting.

The Statement of Net Position presents information on all of the Authority and CIT's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority and CIT is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Authority and CIT's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported in this statement for some items that are related to cash flows in prior or future fiscal periods.

Net Position as of June 30, 2014
(With comparative figures for June 30, 2013)

	2014	2013	Change
Assets:			
Current assets	\$ 11,049,075	\$ 10,493,310	\$ 555,765
Noncurrent assets	29,518	54,801	(25,283)
Capital assets	<u>16,735,027</u>	<u>17,187,797</u>	<u>(452,770)</u>
Total assets	<u>27,813,620</u>	<u>27,735,908</u>	<u>77,712</u>
Liabilities:			
Current liabilities	<u>1,350,980</u>	<u>2,655,087</u>	<u>(1,304,107)</u>
Total liabilities	<u>1,350,980</u>	<u>2,655,087</u>	<u>(1,304,107)</u>
Net Position:			
Net investment in capital assets	16,735,027	15,973,454	761,573
Unrestricted	8,643,302	9,077,367	(434,065)
Restricted, expendable	<u>1,084,311</u>	<u>30,000</u>	<u>1,054,311</u>
Total net position	<u>\$ 26,462,640</u>	<u>\$ 25,080,821</u>	<u>\$ 1,381,819</u>

The current assets increased by \$555,765, primarily due to the receipt of \$624,351 in liquidation proceeds on a Growth Acceleration Program (GAP) Fund investment.

The majority of the \$1,304,107 decrease in current liabilities is the final principal payment of \$1,220,000 on the outstanding bonds payable.

The change in the restricted net position balance of \$1,054,311 represents activity in two areas: the GAP BioLife Fund and the MACH37 Cyber Security Accelerator (Accelerator). The GAP BioLife Fund, a seed stage venture fund, was started in fiscal year 2007 and funded equally by Johnson & Johnson Services, Inc. and CIT. The restricted balance of \$30,000 at the end of fiscal year 2013 reflects activity in the fund from inception of \$1,200,000 in total funding and \$1,170,000 in investments made to support emerging life science companies in Virginia. During fiscal year 2014, the remaining balance of \$30,000 was invested. The Accelerator, started in fiscal year 2014 with \$2,500,000 in funding from the Commonwealth of Virginia, is focused on creating new product companies that will deliver the next generation of cybersecurity solutions. The restricted balance of \$1,084,311 reflects fiscal year 2014 funding of \$2,500,000 and operational expenditures of \$1,415,689.

Revenues, Expenses, and Changes in Net Position for the Fiscal Year Ended June 30, 2014
(With comparative figures for June 30, 2013)

	2014	2013	Change
Operating revenues:			
Lease and bonds	\$ 2,830,367	\$ 3,050,313	\$ (219,946)
Contracts and grants	4,028,712	3,786,842	241,870
Miscellaneous	<u>656,847</u>	<u>174,766</u>	<u>482,081</u>
Total operating revenues	<u>7,515,926</u>	<u>7,011,921</u>	<u>504,005</u>
Operating expenses:			
CIT expenses	15,846,464	12,608,230	3,238,234
Building and IEIA administrative	1,604,619	1,405,179	199,440
Depreciation and amortization	<u>931,819</u>	<u>911,974</u>	<u>19,845</u>
Total operating expenses	<u>18,382,902</u>	<u>14,925,383</u>	<u>3,457,519</u>
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	11,523,907	9,225,649	2,298,258
Interest revenue and gain on investment	801,401	309,799	491,602
Interest expense	<u>(76,513)</u>	<u>(164,363)</u>	<u>87,850</u>
Total non-operating revenues/(expenses)	<u>12,248,795</u>	<u>9,371,085</u>	<u>2,877,710</u>
Change in net position	1,381,819	1,457,623	(75,804)
Net position at July 1, beginning fiscal year	<u>25,080,821</u>	<u>23,623,198</u>	<u>1,457,623</u>
Net position at June 30, ending fiscal year	<u>\$ 26,462,640</u>	<u>\$ 25,080,821</u>	<u>\$ 1,381,819</u>

Operating revenues

The \$482,081 increase in miscellaneous revenue is due primarily to the fiscal year 2014 recognition of \$394,000 of in-kind revenue associated with the Accelerator. The in-kind revenue is calculated as the difference between the promissory note or market value of equity received and the cash investment made by CIT in the participating company. The in-kind revenue is offset by a corresponding in-kind investment expense which yields a net effect of zero on net position. In addition to the \$394,000 of in-kind revenue, CIT received a \$150,000 return on a GAP Fund investment.

Operating expenses

CIT operating expenses increased by \$3,238,234, mainly due to costs associated with the Accelerator and more GAP Fund investments made during fiscal 2014.

Non-operating revenues

In fiscal year 2014, \$2,500,000 in additional appropriation was received from the Commonwealth of Virginia to fund the start-up of the Accelerator. The change of \$491,602 in interest income and gain on investment consists primarily of gains earned on GAP Fund investments.

Net position at July 1, 2013

During fiscal year 2014, the Authority implemented GASB 65, *Items Previously Reported as Assets and Liabilities*, which required a restatement of the beginning net position for fiscal year 2014. Under GASB 65, debt issuance costs should be recognized as an expense in the period incurred. The beginning net position was reduced for the previously unamortized bond issuance costs of \$7,470.

Capital Assets

Capital Assets as of June 30, 2014

(With comparative figures for June 30, 2013)

	2014	2013	Change
Land and land improvements	\$ 5,629,498	\$ 5,629,498	\$ -
Building and improvements (net of depreciation)	11,061,769	11,554,949	(493,180)
Furniture, fixtures and equipment (net of depreciation)	<u>43,760</u>	<u>3,350</u>	<u>40,410</u>
Total capital assets	<u>\$ 16,735,027</u>	<u>\$ 17,187,797</u>	<u>\$ (452,770)</u>

Reductions in the value of building and improvements, and furniture, fixture and equipment reflects depreciation expense of \$931,819, offset by \$484,008 of capital asset additions less Commonwealth of Virginia's depreciation of \$4,959.

Significant variations between budget and actual results

Service Line	Budgeted Cost	Actual Cost	Variance
Connect	\$ 336,785	\$ 1,770,364	\$ 1,433,579
Entrepreneur	\$ 10,296,180	\$ 7,273,234	\$ (3,022,946)
Commonwealth Support	\$ 3,946,063	\$ 3,169,771	\$ (776,292)

Under Connect, costs incurred were higher than budgeted due to a new award with the state of Nevada, increased funding on an existing contract with the federal government, and nine new contracts with the Virginia Department of Education.

Under Entrepreneur, the costs incurred were lower than budgeted predominately due to GAP funds designated for follow-on investments in fiscal year 2015.

Under Commonwealth Support, costs incurred were lower than budgeted on the Modeling and Simulation project due to an unscheduled transition of personnel.

FINANCIAL STATEMENTS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 STATEMENT OF NET POSITION
 As of June 30, 2014

ASSETS	
Current assets:	
Cash and cash equivalents (Note C)	\$ 9,462,007
Accrued interest receivable, prepaid expenses and deposits	119,907
Accounts and accrued receivables (Note D)	747,686
Less: allowance for doubtful accounts	(47,464)
Notes receivable (Note E)	5,918,150
Less: allowance for doubtful accounts (Note E)	(5,918,150)
Unamortized rent abatement	5,000
Due from Commonwealth of Virginia	<u>761,939</u>
Total current assets	<u>11,049,075</u>
Noncurrent assets:	
Unamortized leasing commissions	<u>29,518</u>
Total noncurrent assets	<u>29,518</u>
Capital assets (Note F):	
Land and land improvements	5,629,498
Building and improvements	27,720,470
Less: accumulated depreciation	(16,658,701)
Furniture, fixtures and equipment	730,579
Less: accumulated depreciation	<u>(686,819)</u>
Total capital assets	<u>16,735,027</u>
Total assets	<u>27,813,620</u>
LIABILITIES	
Current liabilities:	
Compensated absences (Note H)	241,186
Unearned revenue	436,058
Accounts payable	443,850
Accrued expenses	101,561
Accrued rent expense	5,000
Security deposits	<u>123,325</u>
Total current liabilities	<u>1,350,980</u>
Total liabilities	<u>1,350,980</u>
NET POSITION	
Net investment in capital assets	16,735,027
Unrestricted	8,643,302
Restricted, expendable	<u>1,084,311</u>
Total net position	<u>\$ 26,462,640</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended June 30, 2014

Operating revenues:	
Lease	\$ 1,727,808
Bonds	1,102,559
Contracts and grants	4,028,712
Growth Acceleration Program	222,298
Cyber accelerator in-kind revenue	394,000
Miscellaneous	<u>40,549</u>
Total operating revenues	<u>7,515,926</u>
Operating expenses:	
Program expenses:	
Research and development	467,792
Entrepreneur	7,273,235
Connect	1,770,364
Broadband	2,234,437
Commonwealth support	3,169,771
Other activities	<u>77,678</u>
Total program expenses	<u>14,993,277</u>
Other expenses:	
Communications and marketing	657,443
Business development	845,417
Advocacy and other unallowable expenses	257,336
Fundraising	10,471
Indirects overapplied to projects	(917,480)
Building and IEIA administrative	1,604,619
Depreciation	<u>931,819</u>
Total other expenses	<u>3,389,625</u>
Total operating expenses	<u>18,382,902</u>
Operating loss	(10,866,976)
Non-operating revenues/(expenses):	
Appropriations from the Commonwealth of Virginia	11,523,907
Interest revenue	169,767
Gain on investment	631,634
Interest expense	<u>(76,513)</u>
Total non-operating revenues/(expenses)	<u>12,248,795</u>
Change in net position	1,381,819
Net position at July 1, 2013	<u>25,080,821</u>
Net position at June 30, 2014	<u>\$ 26,462,640</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2014

Cash flows from operating activities:	
Lease and bonds	\$ 2,891,321
Security deposits received	63,763
Contracts and grants revenue received	4,082,120
Growth Acceleration Program revenue received	271,275
Miscellaneous receipts	40,549
Payments to Growth Acceleration Program recipients	(3,560,162)
Payments to vendors	(8,040,913)
Security deposits paid	(37,656)
Payments to employees	<u>(5,163,640)</u>
Net cash used by operating activities	<u>(9,453,343)</u>
Cash flows from non-capital financing activities:	
Appropriations received from the Commonwealth of Virginia	<u>11,494,456</u>
Net cash provided by non-capital financing activities	<u>11,494,456</u>
Cash flows from investing activities:	
Gain on investment	667,875
Interest received	<u>29,339</u>
Net cash provided by investing activities	<u>697,214</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - IEIA	(200,125)
Acquisition and construction of capital assets - CIT	(283,882)
Cash payments on capital lease	(1,813)
Cash payment to retire bond indenture	(1,220,000)
Payments for interest	<u>(91,803)</u>
Net cash used by capital and related financing activities	<u>(1,797,623)</u>
Net increase in cash and cash equivalents	940,704
Cash and cash equivalents at July 1, 2013	<u>8,521,303</u>
Cash and cash equivalents at June 30, 2014	<u>\$ 9,462,007</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2014

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (10,866,976)
Adjustments to reconcile operating loss to net cash:	
Non-cash item - Depreciation	931,819
Non-cash item - note receivable interest applied to new note or equity conversion	111,913
Non-cash item - Depreciation on generator accepted from tenant in lieu of rent to Commonwealth of Virginia in prior fiscal year	4,959
Changes in assets and liabilities:	
Decrease in accounts and accrued receivables	105,909
Decrease in prepaid expenses and deposits	727
Decrease in due from Commonwealth of Virginia	305,029
Decrease in unamortized leasing commissions and rent abatement	20,283
Decrease in accounts payable	(220,599)
Increase in accrued expenses	78,021
Increase in prepaid rental income	870
Increase in unearned revenue	4,110
Increase in security deposits	26,107
Increase in compensated absences	44,485
Net cash used by operating activities	<u>\$ (9,453,343)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2014

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovation and Entrepreneurship Investment Authority (Authority) and its blended component unit, the Center for Innovative Technology (CIT). The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth), as authorized by the Innovation and Entrepreneurship Investment Authority Act of 2009, as amended, Title 2.2, Chapter 22, of the Code of Virginia. The Innovation and Entrepreneurship Investment Authority Act provides for the Authority to form a non-stock corporation to carry out the mission of the Authority. CIT is the non-stock, not-for-profit corporation created for this purpose, and acts as the operating arm of the Authority. Its mission is “accelerating the next generation of technology and technology companies” coupled with the objective to “achieve national recognition as the premier services provider engaged in technology company creation and company growth”. The Virginia General Assembly 2013 Session, Virginia Acts of Assembly Chapter 806 authorizes the Authority to transfer funds appropriated to it by the Commonwealth to CIT for use in realizing its mission.

The financial statements of the Authority, including its blended component unit CIT, are intended to present the financial position and the changes in financial position and cash flows on only that portion of the financial reporting entity of the Commonwealth that is attributable to the transactions of the Authority including its blended component unit CIT. A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises oversight authority. The Authority is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth. Combining financial statements for the Authority and CIT can be found in the Supplementary Information section of the Annual Financial Statement report.

Basis of Accounting: The financial statements of the Authority have been prepared on the economic resources measurement focus and the accrual basis of accounting; whereby, revenues are recognized when earned and expenses are recognized when a liability is incurred. The activities of the Authority are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used when the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate.

Allocation Method: CIT uses the full-cost allocation approach to allocate indirect costs among functions. CIT allocates indirect costs based on three rates: fringe, overhead, and general and administrative. The fringe and overhead are applied to functions based upon direct labor cost and general and administrative is applied to functions based upon total cost.

Capital Assets: Property and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Depreciation is recorded on the straight-line basis over estimated useful lives of the assets ranging from three to forty years. The Authority uses a \$3,000 cost value to determine the assets to capitalize.

Operating and Non-Operating Activity: Most of the financial activity of the Authority is related to operations. Operating activities are directly related to the Authority promoting the Commonwealth's economic growth through technology. Currently, non-operating activity relates to appropriations from the Commonwealth, investment activities such as interest income, and interest expense.

Income Taxes: The Authority is a political subdivision of the Commonwealth and therefore is exempt from federal income tax. CIT is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE B – NET POSITION AT JULY 1, 2013

During fiscal year 2014, the Authority implemented GASB 65, *Items Previously Reported as Assets and Liabilities*, which required a restatement of the beginning net position for fiscal year 2014. Under GASB 65, debt issuance costs should be recognized as an expense in the period incurred. The beginning net position was reduced for the previously unamortized bond issuance costs of \$7,470.

NOTE C - CASH AND INVESTMENTS

The investment policy of the Authority and CIT is established and monitored by the Board of Directors. The investment policies of the Authority and CIT comply with the Investment of Public Funds Act, Code of Virginia Section 2.2-4500 - 4518. The investment policy establishes guidelines for the quality of investments, maturities, and investment yields.

Certain deposits and investments are maintained by the Authority and CIT or are represented by specific identifiable investment securities maintained by the Treasurer of Virginia, or are held by the Bank of America. Cash and cash equivalents represent deposits and short-term investments with maturities of less than one year.

Custodial Credit Risk: All deposits of the Authority and CIT are maintained in accounts covered by federal depository insurance and collateralized in accordance with the Virginia

Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia, as amended, which provides for an assessable multiple financial institution collateral pool.

Disclosure is required for risk associated with uncollateralized cash deposits, and uninsured and unregistered securities held by a counterparty, or its trust department or agent but not in the government's name. The Authority and CIT had no investments exposed to custodial credit risk.

Concentration of Credit Risk: Disclosure of any one issuer is required when it represents five percent or more of total investments. At June 30, 2014, the Authority and CIT had no investments greater than five percent.

Foreign Currency Risk: Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. The Authority and CIT had no foreign investments or deposits for fiscal year 2014.

Credit Risk: Disclosure of the credit quality rating is required for investments exposed to the risk an issuer or other counterparty will not fulfill its obligations. At June 30, 2014, the Authority and CIT had investments and ratings as shown in the chart below.

	<u>Credit Rating</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Cash		\$ 48,723
Local Government Investment Pool	AAAm	<u>9,413,284</u>
Total cash and cash equivalents		<u>\$ 9,462,007</u>

NOTE D - ACCOUNTS AND ACCRUED RECEIVABLES

The Authority held accounts receivable totaling \$334,490 for tenant leases and contracts and grants. CIT held accounts receivable totaling \$413,196 for contracts, grants, and miscellaneous receivables.

NOTE E - NOTES RECEIVABLE

During the last ten fiscal years, CIT has entered into convertible note purchase agreements with 88 promising emerging companies under its Growth Acceleration Program (GAP) and the Commonwealth Energy Fund (CEF) contract with the Virginia Department of Mines, Minerals, and Energy (DMME). The promissory notes have maturity dates of twelve months to sixty months from issuance. Payment due at maturity is principal plus interest, which ranges from six percent to twelve percent. In some cases, CIT has granted extensions as the notes have become due. At CIT's option, CIT may convert the note into equity of the company, subject to the terms of the note.

At June 30, 2014, CIT had \$5,918,150 in notes receivable. Due to the risk involved with emerging companies, CIT has elected to set up an allowance of \$5,918,150.

NOTE F - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2014:

	Beginning Balance	Acquisitions and Depreciation	Sales and Dispositions	Ending Balance
Land and land improvements	\$ 5,629,498	\$ -	\$ -	\$ 5,629,498
Building and improvements	27,338,198	438,996	(56,724)	27,720,470
Accumulated Depreciation	(15,783,249)	(932,176)	56,724	(16,658,701)
Furniture, fixtures and equipment	761,456	45,011	(75,888)	730,579
Accumulated Depreciation	(758,106)	(4,601)	75,888	(686,819)
Total	<u>\$ 17,187,797</u>	<u>\$ (452,770)</u>	<u>\$ -</u>	<u>\$ 16,735,027</u>

NOTE G - CONTINGENT LIABILITIES

At June 30, 2014, CIT had contingent liabilities related to two term sheets (letter of intent) for GAP investments of \$450,000. The term sheets state CIT's intention to enter into convertible note purchase agreements with the companies, subject to certain conditions. The letters of intent expire 30 - 90 days after issuance. The term sheets expired with no action subsequent to year-end.

NOTE H - COMPENSATED ABSENCES

It is CIT's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since CIT does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred. Each employee may carry the equivalent of two weeks of annual leave forward to the following year.

NOTE I - CAPITAL LEASES

A capital lease for a copier leased by the Authority was paid off during fiscal year 2014. It is a month-to-month operating lease as of June 30, 2014.

NOTE J - BONDS PAYABLE

During fiscal year 2014, the Authority made the final principal and interest payment on the \$12,455,000 of Taxable Lease Revenue Refunding Bonds which were issued on May 1, 1997. The Commonwealth continues to lease facilities from the Authority in the midrise portion of the building. The lease calls for the Commonwealth to pay rent equal to the bond payments (which are now retired and no longer a portion of the rental payment), insurance, trustee fees, and maintenance costs of the midrise portion of the building. In turn, the Commonwealth subleases the leased space to other tenants.

NOTE K - COMMITMENTS

The Authority and CIT have entered into several operating lease agreements. Rental expense for operating leases for the year ended June 30, 2014 was \$624 for the Authority and \$9,902 for CIT. As of June 30, 2014, CIT has the following minimum rental payments due under operating leases. The Authority does not have any minimum rental payments due under operating leases as of June 30, 2014.

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 9,424
2016	9,424
2017	<u>5,054</u>
Total	<u>\$ 23,902</u>

NOTE L - EQUITY POSITIONS

CIT holds equity positions in 53 start-up organizations obtained through CIT's GAP Fund. The equity was obtained by exercising conversion options in the GAP note purchase agreements and through cash purchases. As the companies are not traded on the open market, it is difficult to determine a market value for the equity positions without full company valuations. Since there is no clear assessment of value, CIT has not recorded the equity positions as assets. CIT's equity portfolio, as of June 30, 2014, is detailed below.

Company Name	Number of Shares or % ownership	Type of Equity
Axon Ghost Sentinel, Inc.	80,000 shares	Common
Brazen Careerist, Inc.	454,665 shares	Preferred
Canvas Solutions, Inc.	589,193 shares	Preferred
Cardkill, Inc.	585,366 shares	Common
Cirrusworks, Inc.	163,040 shares	Preferred
Cirrusworks, Inc.	205,210 shares	Common
ClearEdge3D, Inc.	752,400 shares	Preferred
Cont3nt.com, Inc.	133,262 shares	Preferred
DataRPM Corporation	196,344 shares	Preferred
Disrupt6, Inc.	497,561 shares	Common
Distil, Inc.	113,984 shares	Preferred
Encore HQ, Inc.	196,781 shares	Preferred
Engineered Products of Virginia, LLC	6.41% ownership interest	Ownership interest
Fast Orientation, Inc.	111,111 shares	Common
Fitnet Corporation	647 shares	Preferred
Global Cell Solutions, Inc.	35,150 shares	Preferred
Gryphn Corporation	24,621 shares	Common
ID.ME, Inc.	61,864 shares	Preferred
Identia, Inc.	80,000 shares	Common
Introhive, Inc.	322,580 shares	Preferred
Invincea, Inc.	82,729 shares	Preferred
iTi Health, Inc.	39,185 shares	Preferred
Key CyberSecurity, Inc.	487,805 shares	Common
LiveSafe, Inc.	90,674 shares	Preferred
Lujure Media, Inc.	2,741 shares	Preferred
Mobile System 7, Inc.	211,438 shares	Preferred
Mpowerplayer, Inc.	128,804 shares	Preferred
MSB Associates, Inc.	800 shares	Common
NexVortex, Inc.	23,654 shares	Common
OnDialog, Inc.	27,121 shares	Preferred
Perform Yard, Inc.	173,915 shares	Preferred
Phthisis Diagnostic, Inc.	750 shares	Preferred
Piedmont BioProducts, LLC	6% ownership interest	Ownership interest
Pierce Global Threat Intelligence, Inc.	672,994 shares	Common
Power Fingerprinting, Inc.	21,672 shares	Preferred
Private Practice, Inc.	100,000 shares	Preferred
PublicRelay, Inc.	985,027 shares	Preferred
ROI2, Inc.	84,792 shares	Preferred
Sikernes Risk Management, Inc.	36,129 shares	Common
Sitscape, Inc.	37 shares	Common
Soft Tissue Regeneration, Inc.	33,038 shares	Preferred
South49 Solutions, Inc.	250,000 shares	Preferred
Speak, Inc.	863,207 shares	Preferred
Squareloop, Inc.	1,161,827 shares	Preferred
Tau Therapeutics, LLC (dba Cavion LLC)	570,706 shares	Ownership interest
Triblio, Inc.	89,482 shares	Preferred
Urgent.ly, Inc.	56,287 shares	Preferred
Vangogh Imaging, Inc.	200,000 shares	Preferred
Vangogh Imaging, Inc.	80,000 shares	Common
VividCortex, Inc.	212,359 shares	Preferred
Wealth Engine, Inc.	42,302 shares	Preferred
Xdynia, LLC (dba Cavion LLC)	482,986 share	Ownership interest
YaSabe, Inc.	2,295,923 shares	Preferred
Zoobean, Inc.	1,256,982 shares	Preferred
Zoomdata, Inc.	218,872 shares	Preferred

NOTE M - EMPLOYEE BENEFITS

CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). Pension expense for the plan totaled \$662,369 in fiscal year 2014 for payroll of \$4,415,796.

NOTE N - RISK MANAGEMENT

The Authority and CIT are exposed to various risks of loss related to: torts, theft, or damage and destruction to assets, injuries to employees, and natural disasters. Risk management insurance includes general liability, property, directors and officers, errors and omissions, and worker's compensation. The Authority is insured through the Commonwealth's Risk Management Program. CIT is insured through commercial insurance policies with Excelsior Insurance Company, Peerless Insurance Company, Philadelphia Indemnity Insurance Company, and Lloyds of London. CIT's health care plan is administered by Anthem.

SUPPLEMENTARY INFORMATION

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET POSITION
As of June 30, 2014

	IEIA	CIT	Eliminating Entry	Total
A S S E T S				
Current assets:				
Cash and cash equivalents	\$ 1,991,877	\$ 7,470,130	\$ -	\$ 9,462,007
Accrued interest receivable, prepaid expenses and deposits	6,778	113,129	-	119,907
Accounts and accrued receivables	334,490	413,196	-	747,686
Less: allowance for doubtful accounts	(47,464)	-	-	(47,464)
Notes receivable	-	5,918,150	-	5,918,150
Less: allowance for doubtful accounts	-	(5,918,150)	-	(5,918,150)
Unamortized rent abatement	5,000		-	5,000
Due from IEIA	-	469,932	(469,932)	-
Due from Commonwealth of Virginia	761,939	-	-	761,939
Total current assets	3,052,620	8,466,387	(469,932)	11,049,075
Noncurrent assets:				
Unamortized leasing commissions	29,518	-	-	29,518
Total noncurrent assets	29,518	-	-	29,518
Capital assets:				
Land and land improvements	5,629,498	-	-	5,629,498
Building and improvements	27,720,470	-	-	27,720,470
Less: accumulated depreciation	(16,658,701)	-	-	(16,658,701)
Furniture, fixtures and equipment	730,579	-	-	730,579
Less: accumulated depreciation	(686,819)	-	-	(686,819)
Total capital assets	16,735,027	-	-	16,735,027
Total assets	19,817,165	8,466,387	(469,932)	27,813,620
LIABILITIES				
Current liabilities:				
Compensated absences	-	241,186	-	241,186
Unearned revenue	-	436,058	-	436,058
Accounts payable	68,811	375,039	-	443,850
Accrued expenses	-	101,561	-	101,561
Accrued rent expense	-	5,000	-	5,000
Due to CIT	469,932	-	(469,932)	-
Security deposits	123,325	-	-	123,325
Total current liabilities	662,068	1,158,844	(469,932)	1,350,980
Total liabilities	662,068	1,158,844	(469,932)	1,350,980
NET POSITION				
Net investment in capital assets	16,735,027	-	-	16,735,027
Unrestricted	2,420,070	6,223,232	-	8,643,302
Restricted, expendable	-	1,084,311	-	1,084,311
Total net position	\$ 19,155,097	\$ 7,307,543	\$ -	\$ 26,462,640

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended June 30, 2014

	IEIA	CIT	Eliminating Entry	Total
Operating revenues:				
Lease	\$ 1,842,808	\$ -	\$ (115,000)	\$ 1,727,808
Bonds	1,102,559	-		1,102,559
Contracts and grants	971,479	3,057,233		4,028,712
Growth Acceleration Program	-	222,298		222,298
Cyber accelerator in-kind revenue	-	394,000		394,000
Miscellaneous	-	40,549	-	40,549
Total operating revenues	3,916,846	3,714,080	(115,000)	7,515,926
Operating expenses:				
Program expenses:				
Research and development	-	467,792		467,792
Entrepreneur	-	7,273,235		7,273,235
Connect	-	1,770,364		1,770,364
Broadband	-	2,234,437		2,234,437
Commonwealth support	-	3,284,771	(115,000)	3,169,771
Other activities	-	77,678	-	77,678
Total program expenses	-	15,108,277	(115,000)	14,993,277
Other expenses:				
Communications and marketing	-	657,443		657,443
Business development	-	845,417		845,417
Advocacy and other unallowable expenses	-	257,336		257,336
Fundraising	-	10,471		10,471
Indirects overapplied to projects	-	(917,480)		(917,480)
Building and IEIA administrative	1,604,619	-		1,604,619
Depreciation	931,819	-	-	931,819
Total other expenses	2,536,438	853,187	-	3,389,625
Total operating expenses	2,536,438	15,961,464	(115,000)	18,382,902
Operating income/(loss)	1,380,408	(12,247,384)	-	(10,866,976)
Non-operating revenues/(expenses):				
Appropriations from the Commonwealth of Virginia	11,523,907	-		11,523,907
Interest revenue	1,721	168,046		169,767
Gain on investment	-	631,634		631,634
Interest expense	(76,513)	-		(76,513)
Total non-operating revenues/(expenses)	11,449,115	799,680	-	12,248,795
Income/(loss) before transfers	12,829,523	(11,447,704)	-	1,381,819

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014

	IEIA	CIT	Eliminating Entry	Total
Transfers (out)/in - Assets	283,882	(283,882)		-
Transfers (out)/in - Appropriations	(11,523,907)	11,523,907		-
Transfers (out)/in - IEIA contracts and grants	(971,479)	971,479	-	-
Total transfers (out)/in	(12,211,504)	12,211,504	-	-
Change in net position	618,019	763,800	-	1,381,819
Net position at July 1, 2013	18,537,078	6,543,743	-	25,080,821
Net position at June 30, 2014	\$ 19,155,097	\$ 7,307,543	\$ -	\$ 26,462,640

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014

	IEIA	CIT	Total
Cash flows from operating activities:			
Lease and bonds	\$ 2,891,321	\$ -	\$ 2,891,321
Security deposits received	63,763	-	63,763
Contracts and grants revenue received	951,941	3,130,179	4,082,120
Growth Acceleration Program revenue received	-	271,275	271,275
Miscellaneous receipts	-	40,549	40,549
Payments to Growth Acceleration Program recipients	-	(3,560,162)	(3,560,162)
Payments to vendors	(1,126,488)	(6,914,425)	(8,040,913)
Security deposits paid	(37,656)	-	(37,656)
Payments to employees	-	(5,163,640)	(5,163,640)
Intercompany receipts/(payments)	(54,101)	54,101	-
Net cash provided/(used) by operating activities	2,688,780	(12,142,123)	(9,453,343)
Cash flows from non-capital financing activities:			
Appropriations received from the Commonwealth of Virginia	11,494,456	-	11,494,456
Transfers (out)/in - Appropriations	(11,494,456)	11,494,456	-
Transfers (out)/in - IEIA contracts and grants	(951,941)	951,941	-
Net cash provided/(used) by non-capital financing activities	(951,941)	12,446,397	11,494,456
Cash flows from investing activities:			
Gain on investment	-	667,875	667,875
Interest received	1,721	27,618	29,339
Net cash provided/(used) by investing activities	1,721	695,493	697,214
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - IEIA	(200,125)	-	(200,125)
Acquisition and construction of capital assets - CIT	-	(283,882)	(283,882)
Cash payments on capital lease	(1,813)	-	(1,813)
Cash payment to retire bond indenture	(1,220,000)	-	(1,220,000)
Payments for interest	(91,803)	-	(91,803)
Net cash provided/(used) by capital and related financing activities	(1,513,741)	(283,882)	(1,797,623)
Net increase/(decrease) in cash and cash equivalents	224,819	715,885	940,704
Cash and cash equivalents at July 1, 2013	1,767,058	6,754,245	8,521,303
Cash and cash equivalents at June 30, 2014	\$ 1,991,877	\$ 7,470,130	\$ 9,462,007

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014

	IEIA	CIT	Total
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	\$ 1,380,408	\$ (12,247,384)	\$ (10,866,976)
Adjustments to reconcile operating income/(loss) to net cash:			
Non-cash item - Depreciation	931,819	-	931,819
Non-cash item - note receivable interest applied to new note or equity conversion	-	111,913	111,913
Non-cash item - Depreciation on generator accepted from tenant in lieu of rent to Commonwealth of Virginia in prior fiscal year	4,959	-	4,959
Changes in assets and liabilities:			
(Increase)/decrease in accounts and accrued receivables	(10,854)	116,763	105,909
(Decrease) in due to CIT and Decrease in Due from IEIA, respectively	(49,101)	49,101	-
(Increase)/decrease in prepaid expenses and deposits	65,667	(64,940)	727
(Increase)/decrease in due from Commonwealth of Virginia	305,029	-	305,029
(Increase)/decrease in unamortized leasing commissions and rent abatement	20,283	-	20,283
Increase/(decrease) in accounts payable	13,593	(234,192)	(220,599)
Increase/(decrease) in accrued expenses	-	78,021	78,021
Increase/(decrease) in prepaid rental income	870	-	870
Increase/(decrease) in unearned revenue	-	4,110	4,110
Increase/(decrease) in security deposits	26,107	-	26,107
Increase/(decrease) in compensated absences	-	44,485	44,485
Net cash provided/(used) by operating activities	<u>\$ 2,688,780</u>	<u>\$ (12,142,123)</u>	<u>\$ (9,453,343)</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Fiscal Year Ended June 30, 2014

	IEIA	CIT	Total
Undesignated:			
Beginning balance	\$ 87,760	\$ 2,278,408	\$ 2,366,168
Change in net position	618,019	763,800	1,381,819
Change in designated for Cyber Security Fund	-	(62,683)	(62,683)
Change in designated for Modeling and Simulation Fund	-	(311,003)	(311,003)
Change in restricted for MACH37 Cyber Security Accelerator Fund	-	(1,084,311)	(1,084,311)
Change in designated for GAP Fund	-	905,924	905,924
Change in restricted for GAP BioLife Fund	-	30,000	30,000
Change in investment in capital assets	(769,043)	-	(769,043)
Change in designated to building	112,432	-	112,432
Total undesignated	49,168	2,520,135	2,569,303
Designated for Cyber Security Fund:			
Beginning balance	-	185,660	185,660
FY 14 revenue	-	480,000	480,000
FY 14 expenses	-	(417,317)	(417,317)
Total designated for Cyber Security Fund	-	248,343	248,343
Designated for Modeling and Simulation Fund:			
Beginning balance	-	250,343	250,343
FY 14 revenue	-	520,000	520,000
FY 14 expenses	-	(208,997)	(208,997)
Total designated for Modeling and Simulation Fund	-	561,346	561,346
Restricted for MACH37 Cyber Security Accelerator Fund:			
Beginning balance	-	-	-
FY 14 revenue	-	2,500,000	2,500,000
FY 14 expenses	-	(1,415,689)	(1,415,689)
Total restricted for MACH37 Cyber Security Accelerator Fund	-	1,084,311	1,084,311
Designated for GAP Fund:			
Beginning balance	-	3,799,332	3,799,332
FY 14 revenue	-	5,213,975	5,213,975
FY 14 expenses	-	(5,096,981)	(5,096,981)
Prior years' adjustments	-	(1,022,918)	(1,022,918)
Total designated for GAP Fund	-	2,893,408	2,893,408
Restricted for GAP BioLife Fund:			
Beginning balance	-	30,000	30,000
FY 14 revenue	-	-	-
FY 14 expenses	-	(30,000)	(30,000)
Total restricted for GAP BioLife Fund	-	-	-
Investment in capital assets:			
Beginning balance	15,965,984	-	15,965,984
FY 14 revenue	1,705,821	-	1,705,821
FY 14 expenses	(936,778)	-	(936,778)
Total investment in capital assets	16,735,027	-	16,735,027
Designated to building:			
Beginning balance	2,483,334	-	2,483,334
FY 14 revenue	239,842	-	239,842
FY 14 expenses	(352,274)	-	(352,274)
Total designated to building	2,370,902	-	2,370,902
Total fund balance	\$ 19,155,097	\$ 7,307,543	\$ 26,462,640

APPENDIX A

Independent Auditor's Report on Financial Statements



COMMONWEALTH of VIRGINIA

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218
(804) 225-3350

January 26, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Innovation and Entrepreneurship Investment Authority and
Center for Innovative Technology

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the Innovation and Entrepreneurship Investment Authority, a component unit of the Commonwealth of Virginia, and its blended component unit, the Center for Innovative Technology, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in

Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Innovation and Entrepreneurship Investment Authority and its blended component unit, the Center for Innovative Technology, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B to the financial statements, the beginning net position for fiscal year 2014 has been restated to reflect the provisions of the Governmental Accounting Standards Board's (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Statements and Schedule of Analysis of Fund Balances are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Combining Statements and Schedule of Analysis of Fund Balances are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statements and Schedule of Analysis of Fund Balances are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

AUDITOR OF PUBLIC ACCOUNTS

JMR/alh

APPENDIX B

AGENCY OFFICIALS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

BOARD OF DIRECTORS

As of June 30, 2014

David C. Lucien, Chairman

Hooks Johnston, Acting Vice Chairman

Karen Booth Adams	Ray O. Johnson
Eric J. Hansen	Maurice Jones
Anne Holton	Don Rainey
Terry Hsiao	Michael Rao
Wayne Hunter	Timothy D. Sands
Karen Jackson	Teresa Sullivan

OFFICERS

Peter J. Jobse, President and Chief Executive Officer, CIT

Hooks Johnston, Treasurer and Secretary, IEIA

Linda E. Gentry, Treasurer and Secretary, CIT